Agriculture and Agri-Food Canada | Agriculture et Agroalimentaire Canada

AGRICULTURE AND AGRI-FOOD CANADA

Quarterly Financial Report
For the quarter ended December 31, 2013

Canada

AGRICULTURE AND AGRI-FOOD CANADA

Statement outlining results, risks and significant changes in operations, personnel and programs

Introduction

Agriculture and Agri-Food Canada's Quarterly Financial Report (QFR) should be read in conjunction with the Main Estimates for the current year, Supplementary Estimates (A) and (B) as well as Canada's Economic Action Plan 2013 (Budget 2013). This report has been prepared by management as required by section 65.1 of the ***Financial Administration Act*** and in the form and manner prescribed by the Treasury Board. As such, it also has not been subject to an external audit or review.

Detailed information on Agriculture and Agri-Food Canada (AAFC)'s program activities can be found in the Report on Plans and Priorities.

Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the Department's spending authorities granted by Parliament and those used by the Department consistent with the Main Estimates for the 2013-2014 fiscal year. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in

Budget 2012. In 2013-2014, the changes to departmental authorities linked to Budget 2012 were reflected in the 2013-2014 Main Estimates tabled in Parliament.

Additional funding was sought by AAFC through the 2012-2013 Supplementary Estimates B. The Department received this additional authority net of planned savings or other amounts transferred by Treasury Board authority to a frozen allotment.

The Department uses the full accrual method of accounting to prepare and present its annual departmental financial statements that are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

Highlights of fiscal quarter and fiscal year to date (YTD) results

Authorities

April 1, 2013 marked the beginning of *Growing Forward 2* (GF2), the new five year agricultural and agri-food policy framework. *GF2* intends to achieve a profitable, sustainable, competitive and innovative agriculture, agri-food and agri-products industry.

Additionally, AAFC is undergoing transformational change to ensure we are well positioned to continue to achieve excellence in policy development and advice, program delivery and scientific expertise in Canada's agricultural sector.

At the end of the third quarter of 2013-2014, AAFC had total funding available for use of $2,517.2 million as detailed in Table 1. This amount includes the 2013-2014 Main Estimates, Supplementary Estimates (A) and (B), Operating and Capital Budgets Carry Forward (OBCF and CBCF) from 2012-2013, allocations for collective agreements and $7.8 million related to proceeds collected from the sale of Crown assets. The decrease of $333.5 million compared to AAFC's total authorities at the same time in fiscal year 2012-2013 is mainly due to reductions in budgetary statutory authorities and Vote 10 Transfer Payments.

Vote 1 Net Operating authorities as of December 31, 2013 totalled $679.2 million, a decrease of $42.2 million from the December 31, 2012 amount of $721.4 million. This reduction is primarily due to the winding down of the Agricultural Flexibility Program in 2013-2014, as well as the ending of the Agricultural Innovation Program and ecoAgriculture Biofuels Capital Initiative in 2012-2013. Additionally, AAFC has not requested the reimbursement of eligible salary expenditures (e.g. Severance Pay, Parental Benefits) in the third quarter this year, whereas $13.7 million was reimbursed from Treasury Board Secretariat in the same period last year.

Vote 5 Capital authorities at the end of the third quarter of 2013-2014 totalled $34.8 million, an increase of $2.8 million compared to the same quarter in 2012-2013. This is due to a slight

increase in funding for Capital in *GF2* compared to *GF* and a slight increase in the Capital Budget Carry Forward for 2013-2014.

Vote 10 Grants and Contributions authority available for use as of December 31, 2013 of $447.9 million reflects a net decrease of $184.2 million from $632.1 million at the same time in 2012-2013. The decrease is in large part due to the Canadian Wheat Board's Transition Costs Program which received funding through Supplementary Estimates (B) in 2012-2013 made up of significantly higher costs in the first year primarily to pay for legacy debts and severance costs. The remainder of the decrease is a result of programs which have ended, including the Specified Risk Material Innovation Program, the Agricultural Innovation Program and the ecoAgriculture Biofuels Capital Initiative, and lower funding in the final year of the AgriFlexibility Program, in contrast to the previous year.

Budgetary Statutory authorities available as at December 31, 2013, were $1,355.2 million, a decrease of $109.9 million from the December 31, 2012 amount of $1,465.1 million. This decrease is a result of a shift in Business Risk Management (BRM) programming which continues to ensure that farmers are protected against severe market volatility and disasters, while allowing governments to direct resources towards proactive investments in innovation and market development. This, in combination with higher commodity prices driven by increasing grain prices, has resulted in an overall reduction of the forecast requirement for statutory grants and contributions under BRM programming.

Graph 1: Comparison of Authorities Available for Use ($333.5 million decrease)

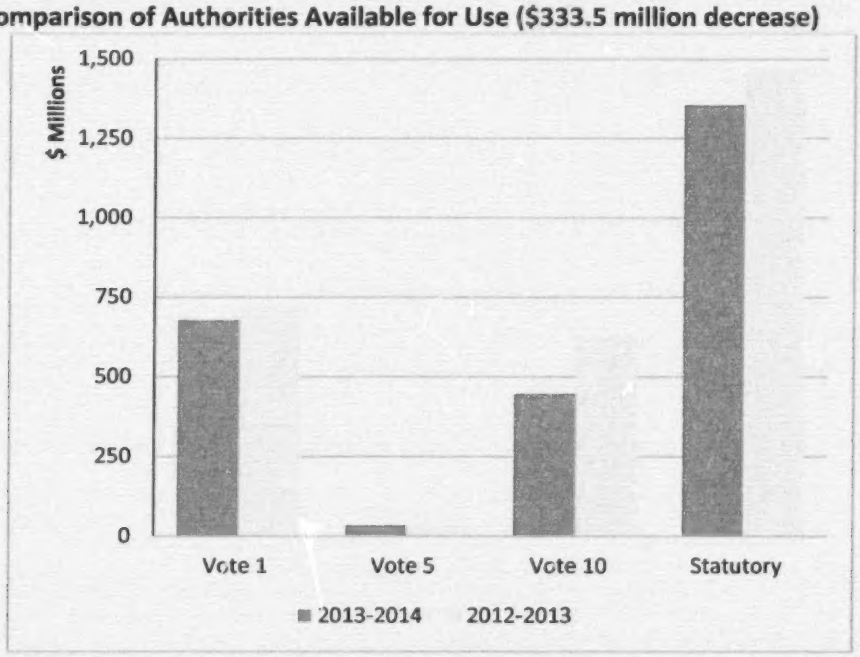

Table 1: Authorities Available for Use (In thousands of dollars) [1]

Authorities	2013-14	2012-13	Variances	%
Vote 1 - Net Operating expenditures	679,175	721,432	(42,258)	(6%)
Vote 5 - Capital expenditures	34,849	32,066	2,783	9%
Vote 10 - Grants and contributions	447,925	632,129	(184,204)	(29%)
Budgetary statutory authorities	1,355,247	1,465,103	(109,856)	(7%)
Total Authorities	**2,517,196**	**2,850,730**	**(333,534)**	**(12%)**

Note:
(1) Totals may not add due to rounding.

Spending

As detailed in Table 2, at the end of the third quarter of 2013-2014, the Department had spent $1,215.3 million, compared to $1,030.6 million for the same period in fiscal year 2012-2013. The net increase of $184.7 million (18%) is primarily related to the timing for recognition of Transfer Payments under the statutory AgriInvest Program as a result of changes to the accounting standard for Transfer Payments.

Vote 1 Net Operating expenditures at the end of the third quarter were $439.3 million or 65% of the total available for use of $679.2 million, which are $0.6 million higher than the same period last fiscal year ($438.7 million, 61%). The relatively small increase in net expenditures is primarily a result of costs associated with severance liquidation payments, which are recoverable from Treasury Board Secretariat.

Vote 5 Capital expenditures at the end of the third quarter were $13.7 million or 39% of the total available for use of $34.8 million. This is not significantly different from the same period in 2012-2013 ($12.7 million or 40% of the budget of $32.1 million).

Vote 10 Grants and Contributions expenditures at the end of the third quarter of 2013-2014 were $90.5 million or 20% of the total available for use of $447.9 million. The previous year's spending was $116.8 million or 18% of the total available for use of $632.1 million. Previous years' Vote 10 expenditures for the third quarter represented 27% of the Vote 10 authorities in 2011-2012, and 20% in 2010-2011. Historically, much of the Department's Grants and Contributions expenditures are recorded close to year-end when provinces make their claims based on actual expenditures.

Budgetary Statutory Authorities expenditures at the end of the third quarter of 2013-2014 were $671.9 million compared to $462.4 million for the same period of the previous year. The $209.5 million increase in spending is mainly related to an increase in expenditures recorded under the AgriInvest Program in 2013-2014 which is due to a change in the timing for recognition of expenditures under this program following the adoption of the new Public Sector Accounting Standard 3410 for Transfer Payments.

Graph 2: Comparison of Expenditures ($184.7 million increase)

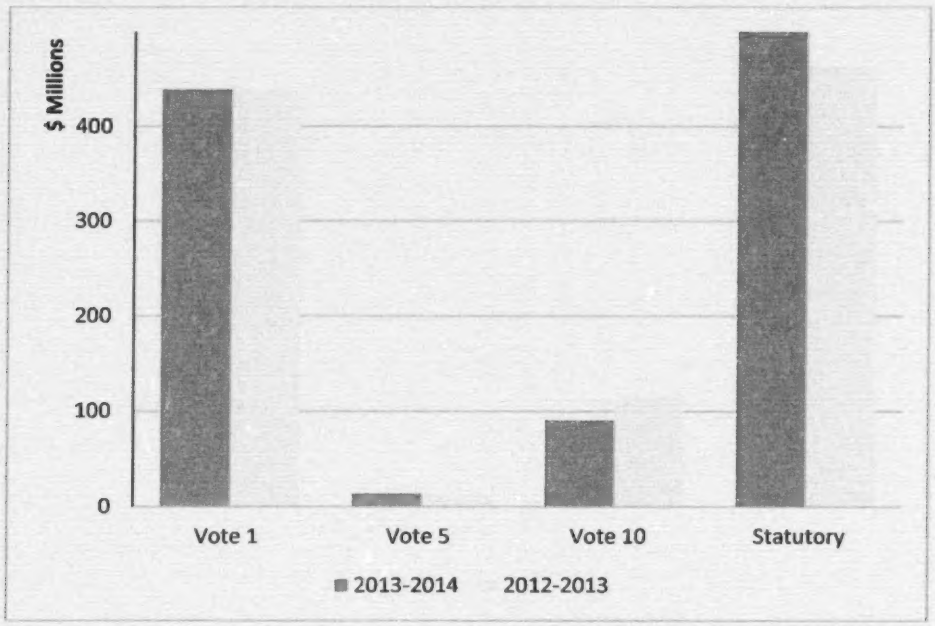

Table 2: Expenditures (In thousands of dollars) (1)

Expenditures	2013-14	2012-13	Variances	%
Vote 1 - Net Operating expenditures	439,289	438,715	574	0%
Vote 5 - Capital expenditures	13,666	12,666	1,000	8%
Vote 10 - Grants and contributions	90,478	116,836	(26,358)	(23%)
Budgetary statutory authorities	671,897	462,394	209,503	45%
Total Expenditures	**1,215,330**	**1,030,611**	**184,719**	**18%**

Note:
(1) Totals may not add due to rounding.

Spending in Comparison to Authorities

At the end of the third quarter of 2013-2014, the Department had spent $1,215.3 million (48% of the total funding available for use), compared to $1,030.6 million for the same period in fiscal year 2012-2013 (36% of the budget).

Graph 3: Comparison of Net Budgetary Authorities and Net Year-to-date Expenditures as of December 31, for fiscal years 2012-2013 and 2013-2014

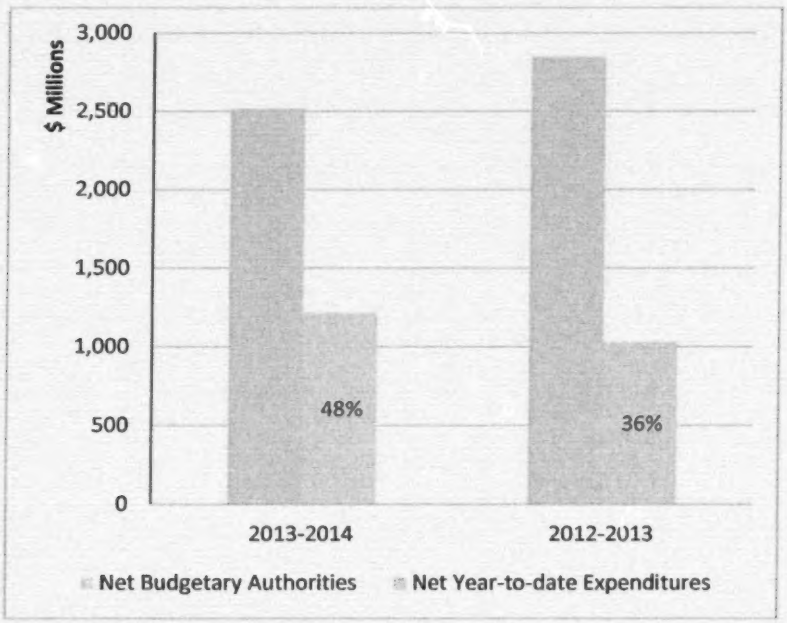

Table 3 presents Budgetary Expenditures by Standard Object. The main variance in expenditures between 2013-2014 and 2012-2013 by standard object is in Transfer Payments, with an increase of $183.2 million or 35%, of which the majority is related to the statutory expenditure increase noted above for AgriInvest. For personnel, the increase of $5.9 million is primarily a result of costs associated with severance liquidation payments, which are recoverable from Treasury Board Secretariat. The increase of $1.5 million in Acquisition of land, buildings and works is related to capital improvements on existing land and buildings. For the other standard objects, variances from Quarter 3 of 2012-13 reflect timing of payments rather than significant changes in spending patterns.

AAFC has total Revenue Spending authority of up to $66.3 million for 2013-2014. The revenue is generated from collaborative research agreements between AAFC and third parties, the grazing and breeding activities of the Community Pastures Program, the administration of the AgriStability Program, as well as recoveries for costs related to Internal Support Services provided to other departments. The Department has generated $42.4 million of revenues up to the end of the third quarter of 2013-2014 compared to $47.0 million for the same period last year. The revenue decrease of $4.6 million is a reflection of timing of collections rather than a significant change in revenue generation.

Table 3: Budgetary Expenditures by Standard Object (In thousands of dollars) (1)

Expenditures	2013-14	2012-13	Variances	%
Personnel	423,226	417,327	5,899	1%
Transportation and communications	8,844	10,014	(1,170)	(12%)
Information	3,000	3,984	(984)	(25%)
Professional and special services	65,571	66,840	(1,269)	(2%)
Rentals	2,226	2,568	(342)	(13%)
Repairs and maintenance	8,499	11,276	(2,777)	(25%)
Utilities, materials and supplies	21,868	23,445	(1,577)	(7%)
Acquisition of land, buildings and works	2,377	875	1,502	172%
Acquisition of machinery and equipment	9,814	9,117	697	8%
Transfer payments	704,860	521,708	183,152	35%
Other subsidies and payments	7,442	10,492	(3,050)	(29%)
Total Gross Budgetary Expenditures	**1,257,727**	**1,077,646**	**180,081**	**17%**
Less: Revenues netted against expenditures	42,397	47,035	(4,638)	(10%)
Total Net Budgetary Expenditures	**1,215,330**	**1,030,611**	**184,719**	**18%**

Note:
(1) Totals may not add due to rounding.

Risks and Uncertainties

AAFC is adjusting its operations to align with actual funding levels going forward. There are several factors that are impacting the level of resources available to run the operations of the Department. These include the winding down of the Agricultural Flexibility Program, and the ending of the Agricultural Innovation Program noted previously, as the Department moves to full implementation of *Growing Forward 2* (GF2) and its emphasis on funding in innovation and in helping the industry compete more effectively in domestic and global markets.

Significant changes in relation to operations, personnel and programs

Operations
In addition to Budget 2012 Implementation activities discussed below, in May 2013, AAFC announced further changes which continued its transformation agenda and identified efficiencies to allow it to operate within a reduced budget envelope and with fewer full-time equivalents (FTEs) in future years.

In line with the transformation initiatives already underway, those changes include: adjusting the way we deliver internal services to find further efficiencies; reducing management layers and streamlining functions within the organization; focusing what we do on the global stage to generate market growth; and consolidating expertise to focus our science and research on the highest priorities for the sector's success.

Personnel
Mr. Michel Lessard was appointed to the position of Chief Information Officer (CIO), Information Systems Branch, effective November 4, 2013.

Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 being implemented to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

AAFC will achieve annual savings of $253.2[1] million by fiscal year 2014-2015 by realigning its business in the following ways:

- Advancing our service excellence agenda, by consolidating all programs into a single programs branch.

[1] The achieved annual savings of $253.2 million by 2014-2015 is the total savings of $252.8 million for AAFC, as well as $0.1 million for the Canada Agriculture Review Tribunal (CART) and $0.3 million for Farm Products Council of Canada (FPCC).

- Establishing a new science and technology branch by putting together our research, science and environmental efforts, to better facilitate innovation, technology transfer and adoption.
- Achieving greater policy integration across the Department to improve our advice and analysis.
- Aligning programs and services to meet priorities.
- Increasing shared services by consolidating some corporate services with the Canadian Food Inspection Agency.
- Continuing to look at ways with our provincial and territorial partners to improve farm income programming.

This approach builds on steps already taken by AAFC to help position AAFC to meet its future goals and priorities while contributing to the government's return to a balanced budget.

In 2012-2013, the first year of Budget 2012 implementation, AAFC achieved its targeted savings of approximately $15.0 million by focussing on reducing program costs. In 2013-2014, AAFC will achieve savings of $158.5 million by continuing to organize its work to enable more effective and efficient program and service delivery. The continued impacts on departmental budgets and expenditures resulting from Budget 2012 will be reflected in subsequent quarterly reports.

Approval by Senior Officials
Approved by:

Suzanne Vinet, Deputy Head

Pierre Corriveau, Chief Financial Officer

Ottawa, Canada

February 20 2014

AGRICULTURE AND AGRI-FOOD CANADA
Statement of Authorities *(unaudited)*
For the quarter ended December 31, 2013
(In thousands of dollars)

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Total available for use for the year ending March 31, 2014 [2]	Used during the quarter ended December 31, 2013	Year to date used at quarter-end	Total available for use for the year ended March 31, 2013 [2]	Used during the quarter ended December 31, 2012	Year to date used at quarter-end
Vote 1 - Net Operating expenditures	$ 679,175	$ 139,785	$ 439,289	$ 721,432	$ 141,484	$ 438,715
Vote 5 - Capital expenditures	34,849	8,599	13,666	32,066	6,585	12,666
Vote 10 - Grants and contributions	447,925	40,393	90,478	632,129	47,440	116,836
Budgetary statutory authorities [3]	1,355,247	381,132	671,897	1,465,103	309,728	462,394
Total Budgetary authorities	2,517,196	569,909	1,215,330	2,850,730	505,237	1,030,611
Total authorities	$ 2,517,196	$ 569,909	$ 1,215,330	$ 2,850,730	$ 505,237	$ 1,030,611

Notes:

(1) Totals may not add due to rounding.
(2) Includes only Authorities available for use and granted by Parliament at quarter-end.
(3) Details on Budgetary statutory authorities are included in Appendix A.

AGRICULTURE AND AGRI-FOOD CANADA

Departmental budgetary expenditures by Standard Object *(unaudited)*

For the quarter ended December 31, 2013

(In thousands of dollars)

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31 , 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013 [2]	Expended during the quarter ended December 31, 2012	Year to date used at quarter-end
Expenditures:						
Personnel	$ 553,771	$ 134,170	$ 423,226	$ 558,204	$ 134,497	$ 417,327
Transportation and communications	25,982	3,301	8,844	37,209	3,466	10,014
Information	9,114	1,407	3,000	7,395	2,169	3,984
Professional and special services	136,574	29,844	65,571	155,392	29,077	66,840
Rentals	5,276	946	2,226	5,857	1,063	2,568
Repair and maintenance	30,278	2,981	8,499	37,865	3,641	11,276
Utilities, materials and supplies	59,515	9,301	21,968	57,340	9,015	23,445
Acquisition of land, buildings and works	5,809	1,035	2,377	5,177	75	875
Acquisition of machinery and equipment	29,039	3,598	9,814	26,918	4,195	9,117
Transfer payments	1,713,871	401,928	704,860	2,016,014	337,634	521,708
Other subsidies and payments	14,238	2,951	7,442	13,598	6,045	10,492
Total gross budgetary expenditures	2,583,467	591,462	1,257,727	2,920,971	530,877	1,077,646
Less Revenues netted against expenditures:						
Vote-netted revenues	66,271	21,553	42,397	70,241	25,640	47,035
Total Revenues netted against expenditures	66,271	21,553	42,397	70,241	25,640	47,035
Total net budgetary expenditures	$ 2,517,196	$ 569,909	$ 1,215,330	$ 2,850,730	$ 505,237	$ 1,030,611

Notes:

(1) Totals may not add due to rounding.
(2) Certain comparative figures have been reclassified to conform to the current year's presentation.

AGRICULTURE AND AGRI-FOOD CANADA
Budgetary Statutory Authorities Breakdown *(unaudited)*
For the quarter ended December 31, 2013
(In thousands of dollars)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013 [2]	Expended during the quarter ended December 31, 2012 [2]	Year to date used at quarter-end [2]
Contributions to employee benefit plans	$ 81,836	$ 19,159	$ 57,476	$ 75,462	$ 18,865	$ 56,597
Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board - Salary and motor car allowance	79	20	59	78	20	58
Contribution payments for the AgriStability program	219,300	(1,873)	(10,332)	500,000	6,095	143
Contribution payments for the AgriInsurance program	640,800	284,608	390,167	410,000	250,348	334,088
Grant payments for the AgriInvest program	126,200	57,760	174,961	131,400	(465)	(1,557)
Payments in connection with the *Agricultural Marketing Programs Act* (S.C., 1997, c. C-34)	94,000	13,587	49,937	94,000	14,342	45,802
Grant payments for the AgriStability program	41,000	(3,463)	(7,142)	90,000	15,185	16,922
Contribution payments for the AgriInvest program	17,500	14,863	21,223	29,000	498	713
Loan guarantees under the *Canadian Agricultural Loans Act*	13,111	(7)	(26)	13,111	57	221
Canadian Cattlemen's Association Legacy Fund	2,500	-	-	5,000	-	-

AGRICULTURE AND AGRI-FOOD CANADA
Budgetary Statutory Authorities Breakdown *(unaudited)*
For the quarter ended December 31, 2013
(In thousands of dollars)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013 [2]	Expended during the quarter ended December 31, 2012 [3]	Year to date used at quarter-end [2]
Contributions in support of the Assistance to the Pork Industry Initiative	635	(3,686)	(3,686)	405	-	-
Grants to agencies established under the *Farm Products Agencies Act* (R.S.C., 1985, c. F-4)	100	-	-	100	-	-
Contribution payments for the Agricultural Disaster Relief Program (ADRP)/AgriRecovery	110,800	58	197	110,870	4,695	9,880
Grant payments for the Agricultural Disaster Relief Program (ADRP)/AgriRecovery	-	-	13	-	-	-
Canadian Pari-Mutuel Agency Revolving Fund	(421)	(668)	(2,315)	(48)	(196)	(1,464)
Spending of Amounts Equivalent to Proceeds from Disposal of Surplus Moveable Crown Assets	7,808	1,087	2,291	5,726	843	2,285
Grant payments for the AgriInvest Kickstart program	-	-	(3)	-	(2)	(12)
Contribution payments for the AgriInvest Kickstart program	-	-	-	-	-	(10)
Refunds of amounts credited to revenues in previous years	-	-	4	-	1	46
Contributions for agricultural risk management - Enhanced Spring Credit Advance program Business Risk Management	-	(213)	(553)	-	(238)	(758)
Class grant payments for the Transitional Industry Support program	-	(2)	(8)	-	-	(36)

AGRICULTURE AND AGRI-FOOD CANADA

Budgetary Statutory Authorities Breakdown *(unaudited)*

For the quarter ended December 31, 2013

(In thousands of dollars)

APPENDIX A

	Fiscal year 2013-2014 [1]			Fiscal year 2012-2013 [1]		
	Planned expenditures for the year ending March 31, 2014	Expended during the quarter ended December 31, 2013	Year to date used at quarter-end	Planned expenditures for the year ending March 31, 2013 [2]	Expended during the quarter ended December 31, 2012 [2]	Year to date used at quarter-end [2]
Class grant payments for the Farm Income program	-	-	(3)	-	(4)	(13)
Grant payments for the Canadian Agricultural Income Stabilization program Inventory Transition Initiative	-	(31)	(129)	-	(305)	(444)
Contribution payments for the Canadian Agricultural Income Stabilization program Inventory Transition Initiative	-	(46)	(202)	-	-	(26)
Contributions in support of the Grain and Oilseed Payment program	-	-	-	-	-	(15)
Grants in support of the Grain and Oilseed Payment program	-	(16)	(26)	-	(2)	(15)
Grants in support of the Cost of Production Benefit	-	(5)	(6)	-	(1)	(3)
Contributions in support of Business Risk Management programs under the Agricultural Policy Framework - Province-Based programs	-	-	-	-	(8)	(8)
Budgetary statutory authorities	$ 1,355,247	$ 381,132	$ 671,897	$ 1,465,103	$ 309,728	$ 462,394

Notes:

(1) Totals may not add due to rounding.

(2) Certain comparative figures have been reclassified to conform to the current year's presentation.